

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:30 p.m., Tuesday, January 27, 2004
Glenn S. Dumke Auditorium

William Hauck, Chair
Shailesh J. Mehta, Vice Chair
Roberta Achtenberg
Kathleen E. Kaiser
Ricardo F. Icaza
M. Alexander Lopez
Frederick W. Pierce IV

Consent Item

Approval of Minutes of Meeting of November 19, 2003

Discussion Items

1. Report on the 2004/2005 Support Budget, *Information*
2. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*
3. Revision of Title 5—Fee Waiver for Dependents of Deceased/Disabled Veterans, *Action*

**MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE**

**Trustees of The California State University
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

November 19, 2003

Members Present

William Hauck, Chair
Shailesh J. Mehta, Vice Chair
Debra S. Farar, Chair of the Board
Roberta Achtenberg
Kathleen Kaiser
M. Alexander Lopez
Frederick W. Pierce, IV
Charles B. Reed, Chancellor

Members Absent

Ricardo F. Icaza

Other Trustees Present

Murray L. Galinson
Eric Guerra
Ralph R. Pesquiera
Kyriakos Tsakopoulos

Chancellor's Office Staff

David S. Spence, Executive Vice Chancellor and Chief Academic Officer
Richard P. West, Executive Vice Chancellor and Chief Financial Officer
Christine Helwick, General Counsel
Jackie R. McClain, Vice Chancellor, Human Resources

Chair Hauck called the meeting to order at 8:44 a.m.

Approval of Minutes

The minutes of September 16, 2003 were approved.

California State University 2004/2005 Support and Lottery Budgets

Mr. Richard P. West, executive vice chancellor and chief financial officer, introduced the item. With the aid of a PowerPoint presentation, Mr. Patrick Lenz, assistant vice chancellor, budget development presented a comprehensive overview of the budget development process and timeline.

Mr. Lenz noted that many budget related issues remain unclear due to the shift to a new administration and the state's existing budget deficit. The governor has taken action to repeal the vehicle license fee, and discussions are taking place to put a \$15 billion deficit reduction bond on the March ballot. Workers Compensation reform will continue to be an issue. We will have discussions with the Department of Finance (DOF) and the legislature about state priorities. Mr. Lenz noted that approximately 85% of the state budget is tied up in K-12, health, welfare, and higher education (in that order). Therefore, since that is the priority order, CSU is highly vulnerable as we go into this budget in the next legislative session.

Mr. Lenz said there is also some discussion regarding a constitutional amendment that would put a cap on state spending, establish a budget reserve, and provide the governor and the Department of Finance with additional budget authority.

Mr. Lenz explained once the board has approved the budget recommendations they will be formally transmitted to the governor and the DOF. CSU representatives will then meet with the DOF and the governor's office to provide any information that will assist the governor to support funding that is in CSU's interest to provide student access and quality education at the CSU.

We will also remind the administration and legislature that no matter what the fiscal conditions of the budget are, CSU faces no less than \$57.5 million in mandatory costs that must be funded; and to make the case that to ignore CSU's mandatory costs will erode access, and the quality of education we provide our students.

Mr. West reinforced that the information contained in the item is the recommendation for the budget request that will be presented to the DOF. However, we recognize that there are limited state resources, and in reality, we do expect cuts in the January budget.

Mr. Lenz continued saying it is hoped that the budget process will follow a similar process to last year. However, he cautioned the committee not to be surprised if in January or March, the board is informed that the budget process will take a different course, or pursue a different timetable for dealing with the state's fiscal crisis.

Trustee Hauck said he was supportive of submitting the budget on a needs basis. However, he said it was important for all CSU constituencies to understand that we are a very long way from achieving anything close fulfillment of those needs.

Trustee Galinson concurred that a needs budget was appropriate. He suggested the formation of a subcommittee to thoroughly review our budget and scrutinize every area for further cuts and reductions. Mr. Galinson volunteered to be on the committee. Trustee Hauck agreed that a subcommittee should be set up to work with Mr. West and Mr. Lenz to examine various contingencies including, salaries for faculty, staff and others, caps on enrollment, and even the question of student fees.

Several trustees expressed their views and concerns about the impact of the budget on enrollment. Trustee Pesquiera noted that as we formalize our strategy, it will be important to emphasize that we have not closed the doors on admissions. Additionally, efforts need to be made to publicize the fact there will be significant numbers of students who will be admitted in the coming year. He clarified it is the future growth issue that is in question, and how that will be addressed.

Trustee Pierce asked about the status of the student fee subcommittee discussed at a recent board meeting. Mr. West replied a subcommittee was established and he expects a draft fee policy to be submitted at the January 2004 board meeting.

The committee heard comments in general support of the budget recommendations from: John Travis, president, the California Faculty Association; Charles Goetzl, president, Academic Professionals of California; and Robert Cherney, president, Academic Senate, CSU.

Mr. West pointed out a correction to the lottery budget resolution. The item incorrectly states the recommended amount of the 2004/2005-lottery budget as \$42.9 million. It should be corrected to reflect the amount of \$42.6 million.

The committee recommended approval of the proposed resolution (RFIN 11-03-14).

2003/2004 Student Fee Report

CSU student fee policy requires that an annual campus student fee report be presented to the Board of Trustees to allow the board to consider the level and range of fees charged to CSU students.

Mr. West reviewed the current process by which fees are reviewed and implemented in the CSU. He highlighted the noteworthy points of the report and explained the circumstances leading to the substantial increase in student fees during the past fiscal year.

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Mr. West pointed out that despite the substantial increase in fees during the year, CSU continues to maintain the lowest fees of all our comparison institutions.

Trustee Guerra asked if it would be possible to look at student fees and include them with the average campus based fees. Mr. West replied he would be glad to look at that.

Trustee Guerra observed there were three campuses (Sonoma, Chico, and Northridge) that had larger fee increases than the others and asked for an explanation. In each case, the increase was related to a fee referendum voted on, and approved by students, to build a recreation center at Sonoma, and for remodeling of the student unions at Chico and Northridge.

Concur with the Final Environmental Impact Report for the California State University Stanislaus, Stockton Off-Campus Center Master Development Plan and Approve Delegation of Authority

Mr. West presented a brief background and history of the CSU Stanislaus/Stockton Off-Campus Center, and updated the committee on the most recent activities associated with the site.

He stated the purpose of the item was to approve the final Environmental Impact Report for the site and to delegate authority to the Chancellor to appoint the Executive Director of the Stockton Center Site Authority, with the concurrence of the Site Authority Board. The item also calls for amendment to a previous resolution to substitute reference to the Assistant Vice Chancellor, Capital Planning, Design and Construction with “ or the Chancellor appointed Executive Director to the Site Authority, are each hereby authorized and directed, jointly and severally....”

Trustee Pierce inquired if CSU was the lead agency on the project. Mr. West replied it was the City of Stockton. Mr. Pierce then asked if we were technically required to take action on this issue. Mr. West said we were not, however we are doing so in the interest of conveying the board’s concurrence with the City of Stockton’s action to approve the Environmental Impact Report for the site.

The committee recommended approval of the proposed resolution (RFIN 11-03-15).

The meeting adjourned at 9:28 a.m.

COMMITTEE ON FINANCE

Report on the 2004/2005 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

On November 18, the Board of Trustees adopted a \$543.5 million “needs budget” that requested state General Fund resources necessary to maintain the quality in education program and access for students at the California State University that is called for under the state’s Master Plan for Higher Education. The Board approved this budget recommendation consisting of: \$54.1 million for mandatory costs, \$206.8 million to fund the Partnership Agreement, \$101.6 million for CSU budget priorities, and a restoration of \$181 million in current year budget cuts to the CSU. The Board also recognized that it was premature to discuss any recommendation on student fees until the release of the 2004-05 state budget.

2004-05 Support Budget

On November 17, Governor Arnold Schwarzenegger was sworn in as the new Governor of California following the recall of Governor Gray Davis. The Governor immediately rescinded the Vehicle License Fee that was enacted as part of the 2003-04 State Budget in an effort to resolve, at that time, an estimated \$8 to \$12 billion budget shortfall. The Governor also called a special session of the legislature to consider a \$15 billion bond measure for the March ballot, and a constitutional amendment to enact a state spending limit, establish a budget reserve, and provide the Governor and the Department of Finance with additional budget authority. The special session also considered repealing recently signed legislation to provide drivers license to illegal immigrants and additional options related to workers compensation reform. In addition to the issues outlined in the special session, Governor Schwarzenegger submitted to the legislature \$1.9 billion in 2003-04 and 2004-05 budget reductions in an effort to begin resolving a budget deficit that has grown to an estimated \$30 billion.

By December 12, the legislature had enacted a statute to repeal the illegal immigrant drivers' license bill and approved a \$15 billion bond measure to be placed on the March ballot. The legislature also agreed on a constitutional spending limit amendment that would allow the Governor to declare a fiscal emergency and call a special session of the legislature to address the fiscal imbalance between General Fund expenditures and revenues, wherein the legislature would have 45 days to respond to a fiscal reduction plan and after 45 days the legislature can only enact proposals dealing with the fiscal crisis. This constitutional amendment would require the legislature to submit (and the Governor to enact) a balanced budget, establish a Budget Stabilization Account (BSA) that must contain a 1 percent General Fund reserve by September 30, 2006, allow for 50 percent of the reserve to pay off the \$15 billion deficit recovery bond, and would prohibit the use of any deficit borrowing to balance future state budgets. The Administration and the legislature did not make progress on additional workers compensation reform.

As part of the \$1.9 billion mid-year budget reduction proposal submitted to the legislature the Governor called for 2003-04 and 2004-05 budget reductions to the CSU and University of California. No reductions were proposed for K-12 or the community colleges as a result of the anticipated growth in Proposition 98 revenues for the 2003-04 (\$875 million) and 2004-05 (\$1.2 billion) fiscal years. For the CSU in 2003-04, the Governor proposed \$11.3 million unallocated reductions and \$12.5 million to eliminate Outreach Programs. The Governor increased CSU's reduction to \$74.6 million for 2004-05 consisting of \$22.6 million unallocated reduction and \$52 million in outreach funding, which includes a \$37 million reduction to eliminate the Educational Opportunity Program (EOP).

On December 10, 2003, the Senate Budget and Fiscal Review, Subcommittee on Education held an informational hearing on the budget reductions proposed for the various higher education segments. In response to the Governor's proposed budget reductions CSU testified before the committee:

- Outreach budget reductions (\$12.5 million) that would eliminate all funding for these programs could not be achieved by the end of the fiscal year.
- If mid-year budget reduction (\$23.8 million) were inevitable, the CSU would request an unallocated reduction that would be managed by the CSU.
- The CSU would manage the \$23.8 million in budget reductions by reducing the state funded enrollment growth from 4.3 percent to 3.3 percent representing a loss of nearly 5,000 students.
- The University would adamantly oppose the total elimination of all EOP funding proposed for the 2004-05 fiscal year.
- The University would not be recommending a mid-year student fee increase as a result of the proposed \$23.8 million 2003-04 budget reductions.

Senate Subcommittee Chair Jack Scott stated that the legislature would not be taking action on the Governor's proposed budget reduction until after the Administration released their 2004-05 State Budget on January 10, 2004.

Subsequent to the legislature deciding to recess until after the holidays, Governor Schwarzenegger declared a "fiscal emergency" and implemented Control Section 27.5 of the 2003 Budget Act to put into place his proposed budget reductions. The Chancellor's Office immediately notified the Department of Finance the University would not be able to implement \$12.5 million in outreach reductions, would take the entire \$23.8 million as an unallocated reduction, and would "manage down" anticipated enrollment growth to address an accumulated 2003-04 fiscal reduction to the CSU of \$327.8 million.

Conclusion

By January 10, 2004, the Governor will submit his 2004-05 State Budget to the legislature and the Chancellor's Office will provide immediate notification to the Board of Trustees and the CSU system of the details in the Governor's budget. It is anticipated that the fiscal impact to the CSU will be similar to the reductions that occurred in 2003-04, there will be revenue and/or student fee recommendations, and it's likely that the budget will include some higher education policy initiatives that will be directly tied to General Fund savings and budget efficiencies.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$31,575,000 to provide needed funds for the construction of three projects. To facilitate maximum flexibility in the commercial paper program, the Board is being asked to approve separate resolutions relating to each project. The long-term bonds for the projects will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investor Services and Standard and Poor's Corporation as the existing Systemwide program.

The projects are as follows:

1. Humboldt State University, Recreation Center and Field House Renovation Project

Previously the Board of Trustees approved the amendment to the Nonstate Funded Capital Outlay program and schematics for the recreation center and field house project. The project will be the first phase of the Forbes Complex Renovation and Expansion project and will include the design and construction of a 3,500 gross square foot addition to the existing 35,000 gross square foot Field House facility. The project will include renovating the existing field house into a multipurpose activity space. The space will be used for outdoor club sport and recreational activities in inclement weather, concert venue seating up to 3,000 attendees, student fitness and exercise programs, and related support space.

At the conclusion of the preliminary phase of plan development the project delivery methodology was changed from design/bid/build to the design/build method to gain value by involving competing builders in the design process. The campus received good bids in December 2003, and is scheduled to begin construction in March 2004 and complete the project in December 2004.

The recreation center and field house renovation project will be operated under the student union program. In October 2001, students voted to support the costs associated with the project and its operation. The not-to-exceed par value of the proposed bonds is \$4,110,000 and is based on project costs of \$4,065,000 of which \$217,100 will be paid from student union reserves and the remaining balance will be paid from financing proceeds.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$ 4,110,000
Amortization:	Approximately level over 30 years
Pro-forma combined maximum annual expected debt service:	\$ 269,051
Projected debt service coverage including the new project: ¹	
Gross revenue – all Humboldt pledged revenue programs:	6.36
Net revenue – all Humboldt pledged revenue programs:	1.39
Net revenue – projected for the campus Student Union Program:	1.39

1. Projected information – Combines the 2002/03 information for the campus-operated pledged revenue programs, the first year of operation of the new project with expected full debt service.

The not-to-exceed amount for the project totaling \$4,110,000, the maximum annual debt service, and the ratios above are based on a construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.1%; December 18, 2003), which provides a modest safeguard to be used if needed for changing financial market conditions that could occur before the permanent financing bonds are sold. The campus has developed a financial plan that demonstrates its ability to meet its student union program and debt service obligations for the new project. The financial plan also includes level amortization of debt service, which is our CSU program standard. With this project, the campus net income from pledged revenue is at 1.39 times debt service, which is slightly above the CSU benchmark of 1.35. The campus is managing its overall use of debt so that including this project, the campus debt payments will total approximately 1.35% of its net unrestricted expenditures, which is well below the maximum CSU internal management benchmark of 4.0% for campuses.

2. California State University, Northridge Parking Structure II

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program and schematics for the design and construction of the Parking Structure II project to be located in the west portion of the main campus immediately west of the Sierra Complex. The project will be constructed on an existing surface parking lot and will contain

approximately 2,200 spaces for a net increase of 1,500 spaces. The not-to-exceed par value of the proposed bonds is \$14,250,000 and is based on estimated parking structure costs of \$22,588,000 of which \$9,777,758 will be paid from parking reserves and the remaining balance will be paid from financing proceeds. The campus received good project bids and expects to open the facility in July 2005.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$ 14,250,000
Amortization:	Approximately level over 25 years
Pro-forma combined maximum annual expected debt service:	\$ 1,000,744
Projected debt service coverage including the new project: ¹	
Gross revenue – all Northridge pledged revenue programs:	4.83
Net revenue – all Northridge pledged revenue programs:	1.74
Net revenue – projected for the campus Parking Program:	1.76

1. Projected information – Combines the 2002/03 information for the campus-operated pledged revenue programs, the first year of operation of the new project with expected full debt service.

The not-to-exceed amount for the project totaling \$14,250,000, the maximum annual debt service, and the ratios above are based on a construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.0%; December 18, 2003), which provides a modest safeguard to be used if needed for changing financial market conditions that could occur before the permanent financing bonds are sold. The campus has developed a financial plan that demonstrates its ability to meet its parking program and debt service obligations for the new project. The financial plan also includes level amortization of debt service, which is our CSU program standard. With this project, the campus net income from pledged revenue is at 1.74 times debt service, which is above the CSU’s internal management benchmark of 1.35. The campus is managing its overall use of debt so that including this project, the campus debt payments will total approximately 3.38% of its net unrestricted expenditures, which is below the maximum CSU internal management benchmark of 4.0% for campuses.

3. California State University, San Bernardino Student Recreation Center Project

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program and schematics for a student recreation center project. In March 2001, the California State University, San Bernardino students voted to support student body center fees to build this student recreation center, and a separate project to expand the student union.

The student recreation center is a recreational and multipurpose facility to enhance student life on campus and will be located on a separate site from the student union. The 34,400 gross square foot building will include a weight room, cardiovascular area, gym/athletic court, group fitness room, a climbing wall, locker rooms, as well as administrative and staff offices. The not to exceed par value of the proposed bonds is \$13,215,000 and is based on estimated student union recreation center project costs of \$12,451,000 of which \$600,000 will be paid from campus student union reserves and the remaining balance will be paid from financing proceeds. At the time the agenda item was written, the campus was awaiting receipt of construction bids. The campus expects to award a contract to construct the project in February 2004, and expects the recreation center project to be completed in August 2005. The student union expansion project, having a different timeline, will be subsequently presented to the Board for financing approval.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$13,215,000
Amortization:	Approximately level over 30 years
Pro-forma combined maximum annual expected debt service:	\$ 865,934
Projected debt service coverage including the two new projects: ¹	
Gross revenue – all San Bernardino pledged revenue programs:	4.27
Net revenue – all San Bernardino pledged revenue programs:	1.76
Net revenue – projected for the campus Student Union Program:	3.18

1. Projected information – Combines the 2002/03 information for the campus-operated pledged revenue programs, the first year of operation of the new project with expected full debt service.

The not-to-exceed amount for the project totaling \$13,215,000, the maximum annual debt service, and the ratios above are based on a construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.1%; December 12, 2003), which provides a modest safeguard to be used if needed for changing financial market conditions that could occur before the permanent financing bonds are sold. The campus has developed a financial plan that demonstrates its ability to meet its student union program and debt service obligations for the new project. The financial plan also includes level amortization of debt service, which is our CSU program standard. With this project, the campus net income from pledged revenue is at 1.76 times debt service, which is above the CSU's internal management benchmark of 1.35. The campus is managing its overall use of debt so that with the recreation center project, the campus debt payments will total approximately 2.46% of its net unrestricted expenditures, which is within the maximum CSU internal benchmark allocation of 4.0% for campuses.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing a set of resolutions to be presented at this meeting for each project described in this agenda item that authorize interim and permanent financing for the projects. The proposed set of resolutions will be distributed at the meeting and will achieve the following:

- (1) Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an amount not-to-exceed \$31,575,000 and certain actions relating thereto.
- (2) Provide a delegation to the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval, individually or in total, of separate sets of the financing resolutions for the projects as described in this agenda item is recommended for:

Humboldt Recreation Center and Field House Renovation

Northridge Parking Structure II

San Bernardino Student Recreation Center

COMMITTEE ON FINANCE

Revision of Title 5—Fee Waiver for Dependents of Deceased/Disabled Veterans

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Background

It is proposed that Section 41801 of Title 5 of the *California Code of Regulations*, which has addressed waiver of fees for dependents of disabled veterans, be repealed. This outdated section implemented and made specific Education Code Section 32320, which was amended and relocated this year as Section 66025.3 [Stats. 2002, Ch. 202 (A.B. 1965)]. The provisions of Section 41801 have been superseded by the enactment of Education Code Section 66025.3. Section 66025.3 is specific as to the requirements and procedure for obtaining a waiver of mandatory systemwide tuition or fees for dependents, children, or surviving spouses of deceased or disabled veterans. With the repeal of Section 41801, waiver of mandatory systemwide tuition and fees will continue to be available to CSU students as currently implemented, but will be governed by Education Code Section 66025.3 rather than Section 41801.

The following resolution is recommended for adoption:

RESOLVED, By the Board of Trustees of the California State University, acting under the authority prescribed herein and pursuant to Section 89030.1 of the Education Code, that the Board hereby repeals Section 41801 of Article 3, Subchapter 5, Chapter 1, Division 5 of Title 5 of the *California Code of Regulations* as follows:

~~§ 41801. Exemption from Fees Under Education Code Section 32320.~~

~~A person who seeks exemption from fees pursuant to Education Code Section 32320 and who is a resident of California shall on or before the date he or she registers file with the campus a certification by the Division of Veterans Affairs, or by any section thereof, that one of the following circumstances exists:~~

~~(a) The person is receiving assistance under the provisions of Division 4, Chapter 4, Article 2 (commencing with Section 890) of the California Military and Veterans Code.~~

~~(b) The person is a child of a veteran of the United States military service who has a service-connected disability and whose annual income not including~~

~~governmental compensation for such service-connected disability does not exceed \$5,000.~~

~~(c) The person is a child of a veteran of the United States who has been killed in service or has died of a service-connected disability, and the annual income of the child, including the value of any support received from a parent, together with the annual income of the surviving parent, does not exceed \$5,000.~~

~~Note: Authority cited: Section 89030, Education Code. Reference: Section 32320, Education Code.~~

And, be it further

RESOLVED, That the Board of Trustees has determined that the adoption of the proposed revision to Title 5 will not impose a cost or savings on any state agency; will not impose a cost or savings on any local agency or school district that is required to be reimbursed under Section 17561 of the Government Code; will not result in any nondiscretionary cost or savings in federal funding to the state; and will not impose a mandate on local agencies or school districts;

And be it further

RESOLVED, That the Board of Trustees delegates to the Chancellor of the California State University authority to further adopt, amend, or repeal this revision if further adoption, amendment or repeal is required and is nonsubstantial or solely grammatical in nature, or sufficiently related to the original text that the public was adequately placed on notice that the change could result from the originally proposed regulatory action.